

MEMORANDUM

To: Board of Regents
From: Board Office
Subject: FY 2000 Budget Ceiling Adjustment and FY 2001 Conceptual General Fund Operating Budget - Iowa State University
Date: May 8, 2000

Recommended Actions:

1. Approve the FY 2000 budget ceiling increase of \$700,000 for a revised FY 2000 budget of \$379,912,256.
2. Consider the FY 2001 conceptual general fund operating budget for Iowa State University.

Executive Summary:

FY 2000 Budget Ceiling Increase

Board policy and strategic planning (Action Step 4.1.1.5) require the Board to approve all budget ceiling adjustments. Iowa State University is requesting approval of a budget ceiling adjustment for FY 2000 of \$700,000 (0.2%) for a revised FY 2000 budget of \$379.9 million. Reimbursed indirect costs and interest income increased; however, tuition revenues were less than originally projected. ISU is proposing to use these additional funds to address high priority needs in the technology and building repair categories.

It is difficult to estimate indirect cost recoveries with precision because they are based on competitively awarded grants and contracts that vary from year to year. Although a maximum indirect cost rate is established, many federal agencies are allowed to pay lower than the maximum rate.

FY 2001 Conceptual General Fund Operating Budget

The FY 2001 conceptual general fund operating budget at Iowa State University is presented in accordance with the Board's strategic plan. This conceptual view of the FY 2001 budget summarizes the current budgetary issues and challenges for implementation of the FY 2001 budget. These challenges result primarily from a shortfall in state appropriations for the general fund operating budget and state appropriations that are less than the Regent calculated need for implementation of the state salary policy.

The Legislature recently approved FY 2001 education appropriations (HF 2549) for Iowa State University that were \$621,087 below the FY 2000 appropriations base. There was also a reduction of \$249,833 in the institution's special purpose appropriations related to economic development. ISU is not expected to receive full funding from state appropriations for salary increases – a shortfall of approximately \$3.5 million for salaries, not including increased costs for health insurance.

ISU plans to implement a 4% salary improvement for faculty and staff, consistent with state salary policy. To fund this plan and provide for mandatory cost increases, opening new buildings, and Plant Sciences initiative, the University proposes to use tuition revenues (less student aid) and reallocations to address the budget shortfall.

Background and Analysis:

FY 2000 Budget Ceiling Increase

Regent Procedural Guide §7.04 requires that Regent institutions docket proposed changes in budget ceilings for general fund operations for Board action prior to institutional action modifying their obligations.

Continuing a trend that began in late FY 1999, strong grant and contract activity has contributed to the increase in indirect cost recoveries. Rising interest rates generated the additional interest income; however, tuition revenues were overestimated. The budget ceiling adjustment will impact the following revenue line items:

- Tuition and fees decreased \$400,000;
- Reimbursed indirect costs increased \$1,000,000; and
- Interest income increased \$100,000.

ISU requests Board approval to use the \$700,000 budget ceiling increase for high priority technology and building repairs. The revised total general fund operating budget for FY 2000 would be \$379,912,256.

FY 2001 Conceptual General Fund Operating Budget

Development of ISU's conceptual budget is based on the Board's and institution's strategic plans, the Board's FY 2001 appropriation request to the Governor and General Assembly, and actions of the General Assembly. At the time of this docket memorandum, the Governor had not signed the appropriations bills.

ISU has budgetary concerns given the shortfall in appropriations.

Strategic Planning

The Board's budget process for the institutions incorporates strategic planning, reallocations, state appropriations, tuition and fees, and enrollments. In this conceptual view, ISU has identified the consequences of this budget shortfall addressing these categories.

Iowa State University has a new strategic plan being presented to the Board this month (ISU A-3). The strategic plan goals are (1) Enhance learning through exceptional learner-centered teaching, services, and enrichment opportunities; (2) Promote discovery and innovation characterized by preeminent scholarship, including increasingly interdisciplinary and collaborative activities; and (3) Engage with key constituents through synergistic sharing and partnership of knowledge and expertise to address needs of communities and society.

ISU indicates that the extent of the appropriation reduction to the operating base will have serious implications to achieving strategic plan goals. Some of the more significant consequences cited by the University include:

- Reduction of programs and services;
- Offering fewer classes;
- Increased class sizes;
- Diminished improvement in undergraduate education;
- Diminished ability to address library resources and services;
- Diminished ability to enhance information technology;
- Slowing progress of increasing student retention and graduation rates;
- Diminished research infrastructure/capacity;
- Diminished competitiveness in compensation for faculty and staff, risking the ability to retain the workforce; and
- Difficulty in recruiting top faculty and staff.

In the long run, if this level of reduction is continued, ISU's believes that the strategic plan may be seriously jeopardized by consequences that will disrupt the substantial progress made in recent years. Funding sources other than state appropriations would have to be increased and/or selective programs and services would have to be reduced.

Salary Funding

Iowa State University continues to identify full funding of salaries as a top priority and therefore, plans to provide an average 4% salary improvement for faculty and staff. It is essential that compensation remain competitive in the peer institution market if the University is to retain qualified faculty and staff.

Reallocations

After using non-appropriated revenue such as tuition to meet the estimated budget reduction, ISU is proposing to reallocate within its base budget to cover mandatory cost increases, opening new buildings, salary improvement, and the Plant Sciences initiative. This reallocation would be comprised of funds from unfilled faculty and staff positions. Using reallocations for these purposes will limit Iowa State University's ability to further reallocate funds toward other strategic plan priorities.

In addition to the previously mentioned appropriation shortfalls, the Plant Sciences appropriation is combined with the appropriation for the General University. ISU will have to reallocate to achieve increased spending for this initiative.

Tuition

The University plans to utilize all of the net proceeds (less student aid) from tuition and fee increases that the Board approved in October 1999 toward partially meeting the shortfall. This modifies the extent to which ISU can fulfill the Board-approved plan for tuition increases.

Planned Expense Reductions

ISU plans to exempt some areas from any budget reduction, similar to the FY 2000 deappropriation. For FY 2001, these areas would include library acquisitions, student financial aid, student recruitment/retention, building repair, and some limited areas involving matching funds and faculty start-up costs.

All other areas will be affected in varying degrees by the reallocations needed to address the shortfall. The University plans to distribute the reductions proportionately across the budget divisions administered by the Provost and the Vice Presidents.


Deb A. Hendrickson

Approved: 
Frank J. Stork